FACT SHEET
AB 2509 (Assemblymembers Galgiani and Carter)
Homeownership Preservation Mortgage Guarantee Program

PROBLEM
The current foreclosure crisis can be largely attributed to the defaults in sub-prime and non-traditional mortgages that have reset to unaffordable levels. Unless credit worthy homeowners who otherwise could afford to stay in their homes are given an opportunity to refinance out of these loans, California will continue to experience a rising rate of foreclosure and the negative ripple effects that impact the state and local economies.

SUMMARY
Assembly Bill (AB) 2509 would create the Homeownership Preservation Mortgage Guarantee Program within the Business, Transportation and Housing Agency to assist low-to-moderate income homeowners who are faced with the possibility of foreclosure to stay in their homes.

WHAT THIS BILL DOES
AB 2509 creates the Homeownership Preservation Mortgage Guarantee Program to provide loan guarantees to be administered through a public-private partnership.

Eligibility to participate in the program is subject to the following criteria:

- The original loan is at risk of foreclosure due to an adjustable rate that will increase and lead to unsustainable payments for the borrower;
- The property is the sole residence of the borrower;
- All holders in the original loan agree to waive all prepayment penalties, fees and other penalties;
- The borrower's income does not exceed 150% of the area median income;
- The outstanding principle is less than $450,000 or no more than 20% of the original loan;
- The lender agrees to issue a new or refinanced loan to the borrower;
- The borrower has not defaulted on the original loan and will be able to pay under the terms of the new loan;
- The borrower meets all other underwriting guidelines established by CalHFA; and
- The term of the guarantee will not exceed five years.

BACKGROUND
It is predicted that 350,000 homes will foreclose in California during 2008 and 2009. Much of the foreclosure crisis is credited to sub-prime and non-traditional mortgages at risk of default.

While sub-prime loans represent just 15% of outstanding mortgages, they account for 68% of recent foreclosures in California (2Q 2007). Similar to the woes related to sub-prime loans, non-traditional loans, or "payment option adjustable rate mortgages (ARMs)," are also playing a significant role in the foreclosure crisis. A recent Barclays PLC analysis found that $312 billion on Option ARMs will recast in the next several years, including $109 billion in 2010 and $118 billion in 2011. California is home to roughly one-half of all Option ARM loans in the nation.

Source: Testimony by Paul Leonard, Center for Responsible Lending, Senate Banking, Finance & Insurance Committee Informational Hearing, March 5, 2008.

According to RealtyTrac data, California's 2007 foreclosure rate of 1.9% (or one filing for every 52 households) ranked fourth in the nation, while the number of California foreclosure filings (481,392 on 249,513 properties) ranked first.[1] While this crisis impacts all Californians, the Central Valley and Inland Empire have been most heavily hit.[2] In 2007, six California metro areas made the list of the nation's top 15 metro areas by foreclosure rates, and Stockton, with an astonishing rate of 4.866% *- or 1 foreclosure filing for every 21 households* – ranked second in the nation.[4] In February 2008, seven of the top ten cities with the highest metro foreclosure rates were California cities.

It is clear to see how home foreclosure affects an owner's circumstances with the threat of bankruptcy, poor credit ratings and huge tax liabilities. However, foreclosures reach even further to have negative impacts on neighboring homeowners, local governments and California's greater economy. These damaging effects included increases in abandonment and vandalism, an estimated $100 billion loss in property value, and an estimated $4 billion loss of property and sales tax revenues for local governments. [5]

Source: Testimony by Paul Leonard, Center for Responsible Lending, Senate Banking, Finance & Insurance Committee Informational Hearing, March 5, 2008. [1] RealtyTrac Press Release, "U.S. Foreclosure Activity Increases 75 Percent in 2007" (Jan. 29, 2008); [2] RealtyTrac Press Release, "Detroit, Stockton, Las Vegas Post Highest 2007 Metro Foreclosure Rates" (Feb. 13, 2008); [3] *Id* Other California metro areas with foreclosure rates in the top 20 were Riverside-San Bernardino at No. 4, Sacramento at No. 5, Bakersfield at No. 7, Fresno at No. 14 and Oakland at No. 16. [4] Rex Nutting, "Could California be in recession? Market Watch (Nov 9, 2007).

In order to stabilize the market, preserve homeownership and more quickly recover from the home foreclosure crisis, California needs to enact an innovative program to assist credit worthy homeowners with refinancing their existing sub-prime and non-traditional loans.

EXISTING LAW

Current law (California Health and Safety Code, Chapter 5.5 Section 51260, to Part 3 of Division 31, relating to housing) establishes the CalHFA for the primary purpose of assisting persons and families of low-to-moderate income with their housing needs. Corporations Code Section 14000 et seq., establishes the Small Business Loan Guarantee Program that allows a business to acquire a loan it could not otherwise obtain and to establish a favorable credit history with a lender. Government Code Sections 13975 – 13984 relate to the duties and powers of the Business, Transportation and Housing Agency.

AMENDMENTS

Amendments taken in the Assembly Appropriations Committee (1) removed the appropriations; (2) removed the program from within the California Housing Finance Agency to the Business, Transportation and Housing Agency; (3) establishes the program upon receipt of federal funds; and (4) sunsets the program in five years.

SUPPORT

Nehemiah Corporation of America
California Credit Union League

OPPOSITION

None on file

STATUS

Assembly Banking & Finance Committee, 8-3
Assembly Housing and Community Development Committee, 5-1
Assembly Appropriations Committee, 12-5
Assembly Floor, 45-30
6/18/08 Senate Banking, Finance and Insurance Committee

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